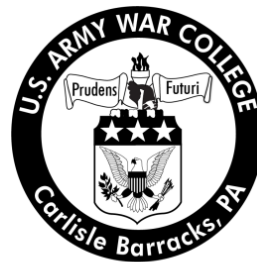


Strategy Research Project International Fellow

The United States of Europe: Realistic Vision or Pipedream?

by

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United States Army War College
Class of 2012

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ABSTRACT

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The global economic crisis that started with the “Lehman Brothers moment” on Wall Street in September 2008 has spread all over the world since. This worldwide financial crisis created many challenges to the nations of Europe, economically and politically, and many are far from fully played out. After the European Union bailed out Greece, Ireland, and Portugal, the larger economies of Spain and Italy appear to be teetering on the edge of insolvency. Most European leaders are coming to realize that they have no choice but to move from a mere monetary union to a deeper fiscal union and to sacrifice even more sovereignty by moving to a deeper integration such as the “United States of Europe.” This paper examines the feasibility and desirability of moving the European Union toward a true federation.

THE UNITED STATE OF EUROPE: REALISTIC VISION OR PIPEDREAM?

The global economic crisis that started with the “Lehman Brothers moment” on Wall Street in September 2008 has spread all over the world since. This worldwide financial crisis created many challenges to the nations of Europe, economically and politically, and some of them are still ongoing. After the European Union bailed out Greece, Ireland, and Portugal, the larger economies of Spain and Italy appear to be teetering on the edge of insolvency. Given these threats to stability, Europe’s leaders should look for a solution to introduce greater central control over tax and spending with enforceable sanctions to ensure such slippages never happen again. Most European leaders are coming to realize that they have no choice but to move from a mere monetary union to a deeper fiscal union and to sacrifice even more sovereignty to the European project. This paper examines the feasibility and desirability of moving the European Union toward a true federation of states.

The 27 member states of the European Union simultaneously exhibit diversity and the sharing of values of solidarity, culture and society. Today’s international environment is changing and it is clear that the world will take a new direction in regard to fiscal policies budget cuts and a different approach to the global economy.

However, the global financial and political crisis that began in the autumn of 2008 has brought a host of adjustments and readjustments. Europe has a choice between being a museum of civilization or playing an important role in the near and distant future. And this role in the future cannot be played under conditions where some

countries choose different directions than others, with national programs and budgets decided made independently based of electoral interests of each country.

For example, on August 18, 2011, as requested by the Finnish parliament as a condition for any further bailouts, it became apparent that Finland would receive collateral from Greece, enabling it to participate in the potential new €109 billion support package for the Greek economy.¹ Austria, the Netherlands, Slovenia, and Slovakia responded with irritation over this special guarantee for Finland and demanded equal treatment across the eurozone, or a similar deal with Greece, so as not to increase the risk level over their participation in the bailout.² The main point of contention was that the collateral is aimed to be a cash deposit, collateral the Greeks can only give by recycling part of the funds loaned by Finland for the bailout, which means Finland and the other eurozone countries guarantee the Finnish loans in the event of a Greek default.³

Officially, the European Union started with the Treaty of Rome in 1957, signed by the heads of governments of France, West Germany, Italy, Belgium, Netherlands and Luxembourg. The idea of a United States of Europe has been floating around Europe for several centuries, a dream that has gained strength each time the various countries went to war with one another. In fact, the idea of federated government in Europe is as old as the stones that we see today in the Greek cities. Plato was the first thinker who supported the idea of peace by organizing confederation.⁴ At that time, the Greek cities had common religious and political institutions with a host Council, an embryo of the European Council today, which resolved the differences between cities. In Roman times, the idea of European peace, the Pax Romana, considered the unification of all

Europe *albeit* under Roman rule.⁵ Then, the spread of Christianity called for world unity based on the idea of Christian universalism. Later, in the 8th Century, a semblance of European unity was achieved briefly under reign of the King of the Franks, Charlemagne (742/748 - 814), but even he did not rule over all of Europe, and that realm broke apart rapidly when split among his three surviving sons.⁶

Through all the pageantry of history, no single regime has ever united all of Europe although many have tried whether by force through Europe's many wars or through the appeal of universal ideals as has been attempted by religions and even the political ideas of the Enlightenment and the French Revolution. The Romans, after taking Gaul, found themselves stalled at the Rhine. The Ottoman Turks reached only as far as the Balkans while the Habsburgs, with their powerful armies, could not conquer all of Europe either. Napoleon came perhaps the closest to falter deep into Russia territory with final defeat at Waterloo at the hands of a coalition of European countries. Neither did universal ideas such as the Roman Catholic religion win over all the hearts of Europe as testified to by the stubborn resistance of religious sects such as the Cathars, not to mention the outbreak of full rebellion by Protestantism. Not even the allure of democracy spurred on by the ideas of the Enlightenment and the fury of the French Revolution would win out in uniting Europe with monarchies and autocracies holding onto their power and challenging the notions of rule by the people.

The renowned German philosopher Immanuel Kant launched in 1785, the idea of a "Society of Nations" on an internationally "rule of law." ⁷ At the pacifist Congress in Paris in 1849, Victor Hugo uttered the famous words: "The day will come when weapons will fall from hand guns and bombs will be replaced with the word and the right

of universal suffrage of the people ... The day will come when we see two huge groups: United States of Europe and the United States of America and giving hand of friendship across the ocean ...".⁸

In 1916, in James Joyce gave the idea of Europe an interesting approach: "I'm a democrat: and I'll work and act for the social liberty and equality among all classes and sexes in the United States of the Europe of the future."⁹ After World War I, the League of Nations marked an important first step towards European federation. A Pan-European movement was founded in 1923, with Count Coudenhove Kalergi as its self-appointed head. The movement did not win mass support but did attract a following among a number of continental diplomats, intellectuals, and politicians.¹⁰

On September 5, 1929 in Geneva, French Prime Minister Aristide Briand presented his plan for European federation at the meeting of the League of Nations: "I think there must be some sort of federal link between people that are grouped geographically, as peoples of Europe. Obviously, the association will act mainly in the economic sphere: it is the most pressing need. In this area, I think we can achieve success. But I am also confident that a political perspective or social perspective, the federal link, without affecting the sovereignty of any nations that might be part of such association, may be beneficial."¹¹ Briand referred to the idea of federal bond a notion of association, but with the preservation of respect for sovereignty. However, the few governments that replied to this initiative were cautious, even negative.

Toward the end of World War II, Winston S. Churchill's speech at the University of Zurich, on September 19, 1946, influenced the shape of postwar Europe.¹² Churchill proposed the establishment of the United States Europe, saying: "We must re-create

the European family in a regional structure called, it may be, the United States of Europe. The first step is the formation of a Council of Europe. If at first all the states of Europe are not willing or able to join the union, we must nevertheless proceed to assemble and combine those who will and those who can.”¹³

A little more than a decade after this important speech by the widely respected and highly influential Churchill, leaders of six European countries signed the Treaty of Rome that established the European Economic Community, the forerunner of the even more politically integrated European Union that would evolve with the signing of the Treaty on European Union on 7 February 1992 in Maastricht, The Netherlands. The European Union’s architects generated the necessary political will by drawing on the memory of the horrors of the Second World War, the threat posed by the Soviet Union and the economic benefits of greater integration. European leaders knew they had to unite and enfold the region’s largest but most troublesome nation, Germany.

The process fed on its own success and, as the Soviet Union crumbled in the early 1990s, it received a powerful boost from German reunification. Germany saw it could be reunified only in the context of greater European unification and it was willing to pay the price. The Germans helped reconcile conflicting national interests by putting a little extra on the table, giving away their strong Deutsch Mark for a much weaker euro introduced officially on 1 January 2002.

When the euro was launched, the European Commission’s president, Romano Prodi, said: “The euro is just an antipasto, it is the first course, but there will be others. The historical significance of the euro is to construct a bipolar economy in the world...There are two poles now: the dollar and the euro.”¹⁴

But the euro was an incomplete currency: it had a central bank but no treasury. Its architects were fully aware of this deficiency, but they believed that, when need arose, the political will could be summoned to take the next step. It was supposed that "...markets would correct their own excesses, so designed the rules only to rein public sector excesses. Even there, they relied too heavily on self-policing by sovereign states."¹⁵ This assumption was one that has contributed to the today's crisis. By allowing countries to control their deficits, a number of European Union member states, including Greece and Italy, were able to circumvent these rules and mask their deficit and debt levels through the use of complex currency and credit derivatives structures.¹⁶

The structures were designed by prominent United States investment banks, who received substantial fees in return for their services and who took on little credit risk themselves thanks to special legal protections for derivatives traders. Financial reforms within the United States since the financial crisis have only served to reinforce special protections for derivatives--including greater access to government guarantees--while minimizing disclosure to broader financial markets.¹⁷

Many financial analysts declared that the common currency was not properly released, with a lot of contradictions and loose ends. "The creators of the euro were like parents fixing an arranged marriage. They knew they were locking together countries with very different economies and political cultures. But they hope that, over time, the new partners would grow together and form a genuine union."¹⁸

Economic and Political Factors

The process of economic integration in Europe evolved gradually from the simple form of a free trade area applied to specific sectors (coal and steel in 1951) to a partial monetary integration today. In the 1950s, the leading idea behind European integration

was to liberalize, to open up, and to remove all kind of barriers which existed at the borders of each country, to enable free movement of goods, services and people across the European continent.

During the 1980s, a debate began over the meaning of free movement of persons. Some member states felt the concept should apply to European Union citizens only, which would involve keeping internal border checks in order to distinguish between citizens of the European Union and non- European Union nationals. Others argued in favor of free movement for everyone, which would mean an end to internal border checks altogether. Since Member States could not reach agreement, France, Germany, Belgium, Luxembourg and the Netherlands decided in 1985 to create a territory without internal borders. This became known as the "Schengen area" after the town in Luxembourg where the first agreements were signed.

European integration took a different course later on with the decisive breakthrough coming with the signing of the Maastricht treaty. Political interests that sought to unify and create a new superpower out of Europe started to dominate. Integration had turned into unification. Political liberalization had turned into centralization of decision making with harmonization of rules and the legislative process began to strengthen European institutions at the expense of those in the member states. Since then, European state institutions have been consistently and systematically undermined; it was forgotten that states are the only institutions where real democracy is possible.¹⁹

In 2010, fractures appeared in the façade of European economic foundations. What went wrong? Europe's apparent prosperity for the past twenty years has been

based not on getting better at making things, but on borrowing. Everyone was living beyond their means, borrowing money from the banks, taking advantage of the low interest-rate, conditions available for members of the European Union. It was not only the homeowners and shoppers who increased their debts, it was also governments. European governments have fuelled a second financial crisis because they borrowed from the banks to finance their political and social ambitions. The first crisis started with the sub-prime mortgage implosion in the United States that crippled homeowners, banks and other financial institutions in 2008 and spread to Europe. In 2011, the origin of the crisis is one of European sovereign debt. This has brought many banks to the brink of collapse again because they hold most of the debt that governments racked up. The irony is that, whereas in 2008 few people saw crisis coming, the present situation has been brewing for years.

From late 2009, fears of a sovereign debt crisis developed among fiscally conservative investors concerning some European states, intensifying in early 2010. This included eurozone members Greece, Ireland, Italy, Spain and Portugal, and also some non-eurozone European Union countries. In the European Union, especially in countries where sovereign debts have increased sharply owing to bank bailouts, a crisis of confidence has emerged with the widening of bond yield spreads and risk insurance on credit default swaps between these countries and other European Union members, most importantly Germany.²⁰

Since the euro's founding, the common currency has rested on two central pillars: The European Central Bank would provide price stability for the entire euro zone and each member state would be responsible for looking after its own budgetary and

borrowing needs. Under the Maastricht Treaty rules, countries were obliged to keep their annual budget deficits below 3% of gross domestic product (GDP) and their total debt below 60% of GDP.²¹

These rules were repeatedly flouted or fudged without consequence until May 2011, when Greece finally hit the wall. In trying to solve the issue, Europe's leaders yanked away the second pillar and replaced it with a permanent mechanism for rescuing member states that cannot meet their obligations. Going forward, the euro zone members will stand as guarantors of each others' national debts.

The Influences of Sovereignty and Nationalism

The reasons the European Union has such difficulty in dealing with the debt amassed by several of its members run deep. Although the markets are driving the news, the euro crisis is mainly about politics and history. Feuding over debt, no matter how serious, is unlikely to trump history or, in some cases, to rekindle old conflicts and hatreds. The European Union has been trying to act increasingly as if were one nation without developing the kind of loyalties and commitments only nations can ask from their citizens. "The clearest sociological test for the national level of the communal bonds is that people are ready to die for their nation; no one is even thinking about dying for the European Union."²²

Many people in positions of political leadership and observers of European integration suggest that a common citizenship depends on the prior existence of social homogeneity. Europe is characterized by a cultural diversity, distinguished by national traditions; the necessary homogeneity would have to be coerced into existence, which would defeat the liberal concept of the European Union.²³ Therefore, a stronger integration from a social perspective will not come by itself. It must be triggered by other

factors, mainly economical or financial that will change at the end the perception over a deeper integration. The idea of European unification constitutes a different geopolitical approach. This idea implies the establishment of a European government which should establish very clear policy guidance, impose a common immigration and foreign policy that should be applied to all European Union countries. It carries echoes of nationalist ideology to the “supranational level, though it also represents an attempt to overcome the problems of a continent dominated by rival national states.”²⁴

The idea of sovereignty is one that appeals to ordinary citizens. It is part of individual as well as collective identity. It is in no way an expression of misguided national egotism. Sovereignty has nothing to do with autarchy or economic self-sufficiency. The national sovereignty of a democratic state is analogous to the freedom and autonomy of the individual. It means that one's domestic laws and foreign relations are exclusively decided by one's own parliament and government, which are elected by and responsible to one's own people. State sovereignty is a result of advancing political culture and is an achievement of modern democracy. It is not an end in itself but is an instrument of juridical independence, determining the option of a people who inhabit a particular territory deciding its own destiny and way of life in accordance with its own needs, interests, genius and traditions. It is the opposite of every kind of subordination to foreign rule. Without sovereignty a nation's politics become provincialized, dealing only with marginal and unimportant issues.²⁵

Many ordinary Europeans, unsettled by threats to their national identity from immigration and globalization, are increasingly skeptical of further European integration. In recent elections, significant numbers of voters in several countries, including Austria,

Italy, and the Netherlands, who have campaigned against further integration. The financial crisis has awakened average Europeans to the frightening possibility that the end is near for their post-World War II system of stiff taxes, guaranteed state jobs and early retirement.

In Finland, the True Finns party and its anti-bailout adherents won an unprecedented 20% of the parliament seats in April 2011. The Irish ousted the pro-European Union government in February of 2011 in the party's worst election showing in eighty years. German Chancellor Angela Merkel's party has suffered defeats in regional elections as she has supported measures to help struggling European Union partners, while France's President Nicolas Sarkozy's popularity rating sank to 20% due to the individual support of European integration. Nationalism and sovereignty will play an important role in the near future, but an economic and financial solution at the European Union level must be found soon.

Other challenges to further integration were noticed a couple of times in the past. In 1987 the European Union denied Turkey's application for a full membership, even though Turkey has been a member of the Council of Europe since 1949 and a founding member of the Organization for Security and Cooperation in Europe, not to mention a highly valued member of the North Atlantic Treaty Organization (NATO). Another example is the rejection of the European constitutional project by the Irish, French and Dutch electorates which was a jeopardizing factor for further integration.

Policy Options

The European Union faces four basic choices. The first is to keep the present level of integration, which combines a free flow of goods with the harmonization of administrative laws but allows each country to manage its own economy, borders and

polity and sharing a single currency. Second, the European Union could devolve to a rump euro zone that includes only the strongest countries or split in two levels where the upper tier consists of strong northern countries, and the lower tier, that includes the remaining members. The third option is to move to a fiscal union with limited sovereignty and some kind of centralized budget approval and or spending veto power over individual states. The fourth solution might be the European Union moves to a much higher level of integration and to create a unique government which would be supervised by the European Parliament (that means the United States of Europe).

The first option implies that states will keep their sovereignty, with basically no changes in the present organization of the European Union. This option is based on nationalism, inter-state relations and the most important, maintaining sovereignty. Many European countries are quite worried about possible Germany's great influence in a new structure. What is striking is the return of the old stereotypes. German condescension towards Greeks has reawakened old resentments and memories of the World War II. For example, an article entitled "Rise of the Fourth Reich, how Germany is using financial crisis to conquer Europe"²⁶ contained the following assessment of what deeper economic integration would mean "... a loss of sovereignty not seen in those countries since many were under the jackboot of the Third Reich 70 years ago... Where Hitler failed by military means to conquer Europe, modern Germans are succeeding through trade and financial discipline."²⁷

Many countries from the euro zone are afraid of the massive surrender of sovereignty to Germany which would reassure the markets and remove any pretense of

democracy in those sixteen countries: for once a country has lost control of its economy, that country has lost its sovereignty.

France, the second-leading European economic power, is concerned about switching from American influence to German. France is worried about whether Germany will remain true to the European Union and the euro; if Germany will choose solidarity over discipline or will Germany ultimately accept the measures that prevailing French opinion considers inevitable and agree to collectivize national debt within the euro zone. In this matter, France's financial minister Leonetti's words were: "France stands more strongly for solidarity, while Germany stands for austerity."²⁸

Lingering concerns about how nationalism can influence negotiation on today's policy options, seventy-two years after German troops invaded his country, Radek Sikorski said: "I will probably be the first Polish foreign minister in history to say so, but here it is. I fear German power less than I am beginning to fear German inactivity. ... The biggest threat to the security and prosperity of Poland would be the collapse of the euro zone."²⁹

A second option is to break the euro into a northern and a southern currency. The northern quadrant would have all the countries that have an AAA country credit rating: Denmark, Germany, Netherlands, Norway, Sweden, Switzerland, Liechtenstein, and Luxemburg and the two recently downgraded to AA+: Austria and France.³⁰ Stefan Goetz Richter, founder of *The Globalist* newsletter says: "I call it the Wallenstein euro,"³¹ referring to the Bohemian general who conquered many northern lands during the Thirty Years' War. "Ninety percent of creditable assets in Europe are behind that line....If nobody buys Italian bonds anymore, the markets may force to break up the euro."³²

The southern currency bloc is expected to grow its combined current account deficits, comparable to the United States, increasing its usage overseas and improving its status as a reserve currency. A monetary union of all the remaining current account deficit countries would create the world's second largest deficit bloc, second only to the United States, the owner of the world's primary reserve currency.³³

The extension of the euro zone to seventeen countries was done for obtaining a larger market, without import taxes and customs duties, for all the powerful countries of Europe. European economies have prospered under the common currency, avoiding competitive devaluations that might occur otherwise in the weaker Mediterranean countries. Germany, in particular, has benefitted from expansion of European markets. Therefore, it will not be in the interest of any strong country from the European Union to move away from a larger economic market to sell their products, without paying taxes and duties. By splitting the euro zone, the confidence of the international community will diminish, and all EU countries will be adversely affected. Indeed, it could result in protectionism as a backlash that would further inhibit inter-European trade rekindling mercantilist policies that Europe has not seen since the 16 and 17th centuries.

If a strong country like Germany walked out of the euro, probably taking other strong countries with it, the result would be just as terrible. Turmoil in the rump of the euro zone would batter export markets just as the north's firms became less competitive. German banks and companies, in a mirror image of what would happen in Greece, would suffer from the sudden devaluation of euro assets outside the new hard-currency zone.

The third solution foreseen by European leaders is a close fiscal union. This would ensure fiscal consolidation, support to countries in difficulty, and a strengthening of euro area governance leading to deeper economic integration and an ambitious agenda for growth. Angela Merkel, Germany's chancellor, has spelt out her determination to create a legally-enforceable "fiscal union for the euro zone, rejecting quick fixes such as the immediate introduction of euro bonds to deal with the debt crisis in Europe."³⁴ Some proposals for treaty change should be made in the European Union, considering that only fundamental reforms will reinforce budget discipline. Under such proposals, all euro members might be expected to introduce a "golden rule" enshrining the principle of balanced budgets in their constitutions.

Recently, Merkel said "We must take steps toward a fiscal union to express the conviction that we know policies must be more closely coordinated if you have a common, stable currency. It is political confidence in Europe that has been lost — we can only win it back politically."³⁵ It could mean drastic national changes. Consider the case of France. Known for its strict, protective labor laws, France might have to change its national politics, too, if stricter free market rules come from Brussels. The common currency will stand or fall based on the ability of the European Union to impose ever more intrusive spending and taxation oversight on the euro zone's members.

But the problems are exceedingly complex. Hence the still-unresolved dilemma at the heart of the euro crisis: economically, the euro zone probably should fail due the lack of a common fiscal discipline among members and failure, by some of them, to take efficient measures to overcome the crises. Politically, this cannot be permitted. The euro has become a major source of stability in the international financial system; 1.4

trillion Euros are now held in global foreign-exchange reserves, one-quarter of the total.³⁶ The European Union is second only to Canada as a customer for United States exports, buying \$168.5 trillion in American products last year.³⁷ If the European rescue plan falls through and Greece defaults on its debt, the ripple effect would be global. Europe could fall back into recession, hurting a major market for American exports, and banks could severely restrict lending.

Under so much internal and global pressure, the euro crisis will be solved somehow, but it will take time and sacrifices from most part of the members of European Union. However, without fiscal and monetary coordination and common policies, Europe cannot survive intact in a world dominated by private capital and stronger countries.

The fourth option would be to move toward federation, a move that would require the euro zone nations to hand over much more economic, budgetary and fiscal authority to a centralized authority that would oversee policy and punish those who failed to abide by it. The existence of single European government or the “United State of Europe” would have as its main task the competitiveness of European products and services and stability of its economies and politics in a world polarized around strong economies such as those of United States and China. This option would entail a complete loss of sovereignty into a federation like the United States of America.

This can be done by turning the European Commission into an executive branch of government under the supervision of the European Parliament. The “United States of Europe” should be the end point of economic and political establishment that requires a

regional government, regional budget, fiscal and budgetary policy and of course, single currency.

Interestingly, although a state outside the euro zone, Romanian president Traian Basescu has announced support of the federal concept in a series of recent statements. According to President Basescu, “the globalization process shows us how small we are, alone, in dealing with the capital, with economic realities, with the market. Governments have proven they can be undermined by investors. So the global system will sweep everything without the capacity to resist, and states must face the negative effects of globalization on their side-the states are no longer holding the capital.”³⁸

Realization of the United States of Europe requires strong political unity and will from all the European Union countries, or at least from the majority, which must include Germany and France. Europe has little time left to choose the path to follow. The truth is that in Europe there is a torrent of words but little clarity and little leveling with the voters. For almost two years, Europe’s leaders have thrown everything they can at solving the euro zone crisis. Summits have come and gone. European indecisiveness and fractiousness is often the object of ridicule in American politics, giving rise to the famous lament attributed to Henry Kissinger: “When I want to talk to Europe, who do I call?”³⁹

Most experts say Europeans must choose now or the choice will be made for them. Either they will choose to go forward as a community, where rich and poor throw in their lot together, or they will experience greater fragmentation and, potentially, a return of the bitter divisions that have torn apart Europe in the past. It is as much a question about identity as it is about finance. And the answer cannot be delayed.

Many Europeans fear the concept of federalism mainly because it is not properly understood. It is part of a coherent system concerned with the whole range of interdependent levels of government, each democratically accountable to its own elected representative councils, assemblies or parliaments with constitutionally guaranteed powers. “The fear that we would all become foreigners is a major public misconception of federalism in its application to European unity. The very essence of federalism is a federal constitution that safeguards the autonomy and integrity of its component states.”⁴⁰

The problem is that the political system in Europe cannot cope with the jump from the current system to a federal one in one go. Right now, the European Union treaties don’t really allow for the “United States of Europe.” The two principal treaties on which the European Union is based on are the *Treaty on the Functioning of the European Union* (Treaty of Rome, effective since 1958) and the *Treaty on European Union* (Maastricht Treaty, effective since 1993). These main treaties (plus their attached protocols and declarations) have been altered by amending treaties at least once a decade since they each came into force. Some changes were done by signing the *Reform Treaty* (Treaty of Lisbon, effective since 2009), these changes included the move from unanimity to qualified majority voting in several policy areas in the Council of Ministers, a change in calculating such a majority to a new double majority, a more powerful European Parliament forming a bicameral legislature alongside the Council of Ministers under the ordinary legislative procedure, a consolidated legal personality for the EU and the creation of a long-term President of the European Council and a High Representative of the Union for Foreign Affairs and Security Policy.⁴¹

Even though there were improvements and simplification for the functioning of the European Union, there is still the requirement that any changes in the core function of the European Union must be approved by each state member, based on a referendum. European Union countries must agree totally with this shift to federalism. To get consensus among European leaders will likely be far easier than getting consensus among all the citizens who will be affected by such dramatic changes to the existing political order in Europe.

If realized, the United States of Europe project should include as members not only among the seventeen states from euro zone, but the other ten members of the European Union, too. Some of them are even against joining the euro zone let alone moving toward greater political integration as is implied by federation. By far, the most important country from this group is Great Britain. David Cameron, British prime minister declared: "As long as I am prime minister, this country will never join the euro."⁴² The British economy is in a bad shape, and set to get worse, mainly as a consequence of European leaders' failure to deal profound problems in euro zone countries. Great Britain has potentially more influence over Germany than France, given the nature of City of London as an important source of funding for the manufacturing that underpins German prosperity.

Policy Recommendations

Maintaining the status quo, course of action one, is unacceptable to all the parties because it will not resolve the current crisis. The second option, splitting the euro zone into two blocks, one of haves and one of have-nots, carries far too many risks both economically and politically to all the parties, even those who currently maintain strong economies. And current political winds, especially the strong public outcries

against increased federation and loss of sovereignty, mean that Europe is not yet ready for full political integration into a new United States of Europe.

The third option, fiscal union, will be more easily accepted by countries, in regard of the sovereignty issue, and will provide a short term solution for the ongoing crisis. Of the four options, given current conditions and political realities, the close fiscal union seems to be more appropriate solution for European Union. The fiscal union should require each country to balance its budgets over the business cycle, failure to comply to lead automatic with financial penalties. Although the European political process will not create strong fiscal discipline, financial markets are likely to force euro-zone governments to reduce sovereign debts and limit fiscal deficits. During the single currency's first decade, private investors' belief in the equality of all euro-zone sovereign bonds kept interest rates low in the peripheral countries, even as their governments ran up large deficits and accumulated massive debt. For eurozone governments, that means that financial markets will now enforce what the political process cannot achieve.

To start the closer fiscal union with, there is one major action that has to be done urgently: restore confidence and trust in the European Union organizations and policies. The most precious currency in the world at the moment is not the euro or the dollar: it is confidence.

To implement the closer fiscal union there are four supporting actions that have to be taken. First, the situation in Greece must be resolved; uncertainty cannot be permitted to linger. Second, the European Union must make clear which of Europe's governments are deemed illiquid and which are solvent, giving unlimited backing to the solvent governments but restructuring the debt of those that can never repay it. Third,

steps must be taken to shore up Europe's banks to ensure they can withstand a sovereign default. And finally, the European Union must start the process of designing a new system to stop such a mess ever being created again.

The fourth part will take a long time to complete: it will involve new treaties and approval by parliaments and voters. The others need to be decided on speedily with the clear aim that European governments and the European Central Bank act together to end the vicious circle of panic, in which the weakness of government finances, the fragility of banks and worries about low growth all feed on each other.

So far the eurozone's response has relied too much on two things: austerity and risk avoidance or an unwillingness to act. Instead of these measures, a credible rescue plan should start with growth and, where it is unavoidable, a serious restructuring of debt. All troubled economies, solvent and insolvent, need a renewed program of structural reform and liberalization. Freeing up services and professions, privatizing companies, cutting bureaucracy and delaying retirement will create conditions for renewed growth; and this is the best way to reduce debts.

It is now critical that most European nations recapitalize their banks as the British Government did in 2008. Everything is intertwined: French banks effectively own some Greek banks, for example. Many do not have sufficient capital to withstand a plummeting in the value of the debt they hold. One solution is to increase the euro region's own funds from the planned limit of 500 billion Euros that will take effect in July. "EU officials already plan to reassess that amount in March and have the option to push it even higher through leverage. That could swell it to level triggering donations to the

International Monetary Fund from around the world and result in an overall war chest worth at least \$1.1 trillion.”⁴³

As other recommendation, a firewall must be put up between Europe’s insolvent periphery and its solvent core. By letting a bankrupt country such as Greece continue to stumble on, Europe’s leaders have imperiled countries in the core that should be perfectly able to pay off their debts as long as the markets do not impose unbearably high interest rates on them.

New tight fiscal regulations are just one step ahead, but in order to sustain these propose changes it will required “...much more issues such as a common security, energy, climate, immigration and foreign policy as well as develop a common narrative about the future of the union and its place in the world.”⁴⁴

Conclusions

European countries are not arbitrary rectangles drawn on a piece of land. They have their own language, their own traditions, psychology, ethos, and collective subconscious built on amalgam of memories, fantasies, unhealed wounds and frustrations in a common history. In Europe nothing is simple; boundaries are not simple, people are not simple, the laws vary greatly from state to state. The system of weights and measures differ, even the right or left traffic on roads. All these facts, from the smallest to the most general ones form a rejection force between states, which is impossible to ignore.

In the last century, a heroic ideal turned into the nightmare of totalitarianism and the world wars. Tens of millions of European citizens were slaughtered in the name of extreme forms of patriotism and nationalism. The Cold War and Iron Curtain between West and East also contributed to the mutilation of European consciousness, whatever

was left of it after the previous conflicts. The trend of fragmentation based on ethnic principles of Europe continues today from the former Yugoslavia up in Belgium. They are added religious division of the continent divided by other than national boundaries, producing the famous Huntington's fault line.⁴⁵ What centripetal forces might oppose the centrifugal forces of terrible nationalism?

Fortunately, there exists a kind of opposing force to nationalism, and it is not primarily related to the centralization and standardization of laws in Brussels. That force is the European spirit. It is about formidable cultural and artistic alliance of the continent, which ultimately led to a great civilization, built on the shoulders of Homer, Socrates, Dante, Leonardo da Vinci, Shakespeare, Newton, Vermeer, Goethe, Kant, Beethoven, Proust, and Einstein. First of all, Europe is a cultural concept, a state of spirit, a sense of belonging to civilization. It is the continent of museums, concert halls and cathedrals. It is a doubting intellectual spirit, slow, but deep thinker embodied in Hamlet (European archetypal), in contrast with the man of action.

The United States of Europe as a concept lacks a strong democratic mandate. Accomplishment of this project would be possible only through a massive transfer of sovereignty from the country parts, forced by economic and financial needs evident in these years of crisis. No other federal system in the world today could serve as a model for a United States of Europe. For Europe to work united, there is a need for other assumptions and conditions specific to the old continent, in addition to the pure economic survival. But a move to a fiscal union is not only feasible but necessary.

Europe has a chance to seek and find a balance between state nationalism in one hand and European spirit, free thinking and creativity on the other hand. But if the

European spirit comes with a bureaucracy and an over centralized standardization, which does not take into account local conditions, as it is happening now, there will be a little chance for unity. If the federalization process will continue, Europe will give up not only sovereignty but living history, deeply rooted in the past. To give up hope it must be something much better, something that it is not foreseen, at least for the next period.

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